

NOTES ON COST RECOVERY

Australia and New Zealand are the countries that have gone the furthest in implementing cost recovery. Cost recovery is also used in Iceland, where it is a feature of the individual transferrable quota ITQ system, and has been introduced in some fisheries in Canada and the United States (i.e. in federal fisheries, as a part of catch shares systems).

There are two principal categories of charges that are applied to fishermen. **Access (or entry) charges** are charges which are made simply for access to the fishery and which therefore take no account of the actual amount of use that is made of the resource. License and permit fees are the obvious example. **User charges**, on the other hand, are charges that vary with the amount of use that is made of the resource. Resource use may be defined either directly in terms of output (the amount of fish caught and landed) or indirectly in terms of inputs (one or more components of effort). In practice, however, these charges have only been levied on outputs. Landing taxes and charges proportional to the value of landings (as in some ITQ systems) are clear examples. User charges may create incentives to under-report, and both types of charges, if unilaterally implemented (i.e. as part of a cost recovery program), have the potential to hinder the competitiveness of local fisheries (against producers in Virginia, for example). With excess capacity, however, this is less of a concern.

1. The case of Australia

The principle of recovering all attributable costs was established in the mid-eighties. Under this policy, management costs are not fully recovered. The reason is that not all costs are attributable to specific fisheries or groups of fisheries. The commercial fishing industry pays for those cost directly related to fishing activity, while the Commonwealth government pays for management activities that may benefit the broader community (as well as the industry) and that satisfy a range of specific community service obligations.

The framework currently used by the Australian Fisheries Management Authority (AFMA) is a two-stage procedure to assess which costs are recoverable from the fishing industry and which should be borne by the government. In the first stage, it is determined whether the cost associated with each AFMA function is attributable to a specific user group (commercial fishers, foreign fishers, recreational fishers and so on) or whether it is attributable to the community at large. In practice, an activity is considered to be attributable to a specific user group if the answer to the following question is “yes”: Would the non-existence of a particular group eliminate the need for the AFMA activity in question?

In the second-stage, AFMA activities that have been attributed to specific user groups are examined to determine whether costs should be recovered from the user groups. A number of factors are taken into consideration in determining whether costs are recoverable or non-recoverable:

- The extent the user group benefits from the activity;
- Consistency with Commonwealth government cost recovery policy in other areas;
- The existence of extenuating socio-economic considerations (i.e. such as protecting the traditional way of life of some communities);
- The existence of government policy which impacts on the cost recoverability for a particular activity (i.e. there may have been policy decisions in the past that now influence the recoverability of a particular cost); and
- The cost effectiveness of recovering the costs of any particular activity.

Thus, for example, the costs associated with the management of domestic commercial fisheries are deemed to be fully recoverable from industry (although the costs associated with collapsed, exploratory or developmental fisheries may only be partially recoverable). The costs of surveillance and enforcement of commercial fisheries, on the other hand, are split equally between the government and industry.

As of 1999, **57% of the costs in the Commonwealth fisheries were recovered**. This level of cost recovery is a direct result of the increasing use of the user pay concept in the provision of many government services (i.e. when the fishing industry is the main beneficiary of management, it should pay for the costs of that management). **Measured as a share of landed value, the management costs in the Commonwealth fisheries are about 7%, which is a fairly typical share.**¹

An additional (in theory) benefit of cost recovery is that it provides a link between the provision and the use of fisheries management services. As industry is confronted with an annual bill for management services, it has a strong incentive to demand efficiency and cost effectiveness in the provision of those services. However, in Australia there has been no clear evidence of a reduction in fisheries management costs since the introduction of the cost recovery policy.

2. The case of New Zealand

New Zealand introduced cost recovery in 1994. **Since it was introduced, about 70% of all management costs are recovered. Measured as a share of landed value, the management costs in New Zealand are about 8%.**

The main principle behind cost recovery is, as in the case of Australia, that costs should be paid by those who drive the need for the management service. Thus:

- The Crown should pay for services provided in the general public interest;
- The cost of services provided to manage the harvesting of fisheries resources should be directed those who benefit from harvesting the resource;

¹ As of 2000, the average share for the EU countries was 6% and for the OECD countries was also 6%. The average for US federal fisheries was 18% (Wallis and Flaaten, 2001). **These numbers are similar to those of Maryland commercial fisheries, where the average share of management costs to landed value equals 13% (before any transfers off budget).**

- The costs of services provided to avoid risk to the environment or its biological diversity should be directed to those who contribute to the risk.

In 1999 the government established joint Industry/Ministry of Fisheries Working Group to develop the detailed rules based on the above principles. The Working Group's main recommendation was that the government should continue to purchase or provide the services that are its core role, but industry should be allowed to purchase other, non-core, services at its own expense, so long as the services are delivered to standards that allow the government to carry out its core roles.

In both Australia and New Zealand, the introduction of the cost recovery policy has been contentious. The industry's principal concern has been the regime's failure to provide for efficient pricing of services. This failure –it is claimed– arises from the monopoly nature of the service provider – the government. In New Zealand attempts by industry to reduce costs have taken the form of lobbying for increasing activities paid by the government and decreasing activities paid for by the industry, rather than increasing the efficiency of the management services provided.

NOTE: The limited literature of cost-recovery in fisheries divides fisheries management in the following main set of activities:

- Research to inform fisheries management decision makers (i.e. stock assessments, environmental impacts, socioeconomic studies, etc.)
- Creating and implementing fisheries management systems (i.e. formulation, dissemination and implementation of policy and rules)
- Enforcement of management rules

This breakdown of costs seems to be a standard and allows comparison across different jurisdictions and the benchmarking with best-practices. It may also facilitate the determination of the type of costs attributable to different user groups (and the part that should be funded by the government).